

LEGISLATIVE FINANCE COMMITTEE

November 14, 2017

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NEW MEXICO

LOTTERY





Problems cannot be solved by
thinking within the framework in
which the problems were created.

— *Albert Einstein* —

AZ QUOTES

The Lottery Act

6-24-3. Purposes.

The purposes of the New Mexico Lottery Act are to:

- B. provide the **maximum amount of revenues, without imposing additional taxes** or using other state revenues, for the purpose of providing tuition assistance

6-24-6. Powers of the authority.

- A. The authority shall have **all powers necessary or convenient** to carry out and effectuate the purposes and provisions of the New Mexico Lottery Act that are *not in conflict* with the constitution of New Mexico and that are **generally exercised by corporations engaged in entrepreneurial pursuits,**

6-24-7. Board of directors; duties.

It is the duty of the board to:

- B. **maximize the revenue** for the public purposes of the New Mexico Lottery Act **and to that end assure that all rules, policies and procedures adopted further revenue maximization;**

HISTORICAL REVIEW

(Millions)

****Rounded,
Unaudited



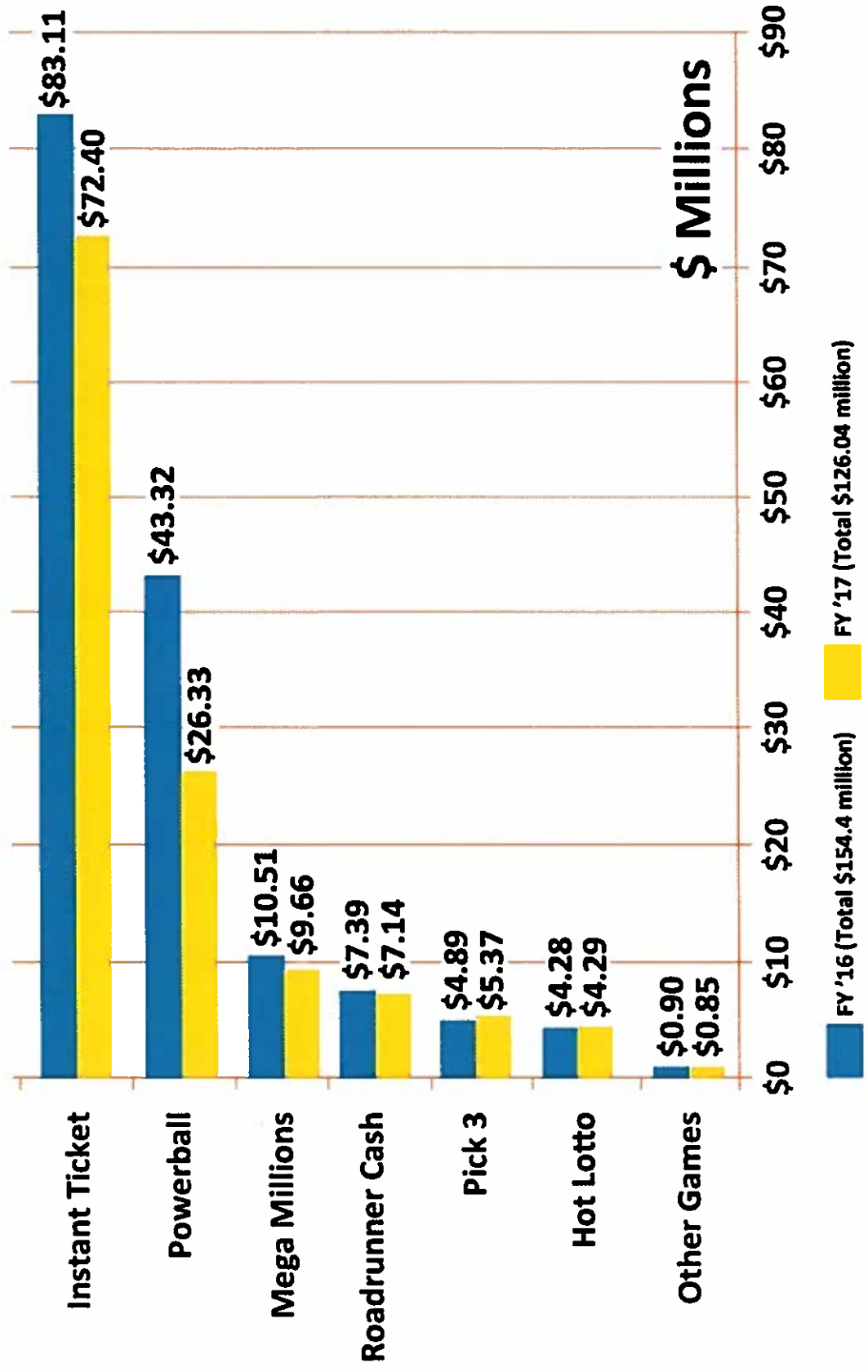
Fiscal Year

Gross Revenues ***

Net Revenues for Education

2007	\$148.8	\$34.8
2008	\$147.8	\$40.8
2009	\$142.6	\$40.8
2010	\$143.6	\$43.6
2011	\$135.6	\$41.3
2012	\$133.9	\$41.3
2013	\$141.8	\$43.7
2014	\$136.1	\$40.9
2015	\$137.1	\$41.1
2016	\$154.4	\$46.3
2017	\$126.1	\$37.8

Sources of NMLA Revenues



Numbers are rounded

5.4%
Cost of Product*
\$8.4 Million



54.9%
Prizes
\$84.8 Million

6.5%
Retailer Commissions
\$10 Million



3.2%
Administrative Costs
\$4.9 Million



30%
Lottery Tuition Fund
\$46.3 Million



\$154.4 Million in Gross Revenues

FY '16

* Cost of Product includes: On-line vendor fees, advertising, ticket vendor fees, retailer equipment, promotions, shipping and postage, responsible gaming, game membership and drawing game costs. By statute, the Lottery is required to return a minimum of 50% of proceeds to players in the form of prizes and 30% to the Lottery Tuition Fund. The remaining funds are allocated to cover the cost of product as well as retailer commissions and the administrative costs.

Where The Money Goes

FY '17

\$126.1 Million in Gross Revenues



53.3%
Prizes
\$67.2 Million

6.8%
Cost of Product*
\$8.6 Million



30%
Lottery Tuition Fund
\$37.8 Million



6.5%
Retailer Commissions
\$8.2 Million



3.4%
Administrative Costs
\$4.3 Million



In Millions; Numbers are rounded; FY '17 Unaudited

Key Performance Indicators

FY '14 FY '15 FY '16 FY '17

Gross Revenue

\$136.1 \$137.1 \$154.4 \$126.1

Admin Costs

\$5.5 \$5.1 \$4.9 \$4.3

Cost of Product

\$6.8 \$6.4 \$8.4 \$8.6

Retailer Commissions

\$8.8 \$8.9 \$10 \$8.2

Prizes for Players

\$74.1 \$75.6 \$84.8 \$67.2

Money for Students

\$40.9 \$41.1 \$46.3 \$37.8

When Players win more, Students get more.

In Millions
Numbers are rounded
FY '17 Unaudited



Comparable Powerball Jackpot Runups and Draw Sales

at 18 Draws

Draw Sales

\$2,423,838

at 20 Draws

Draw Sales

\$1,251,140

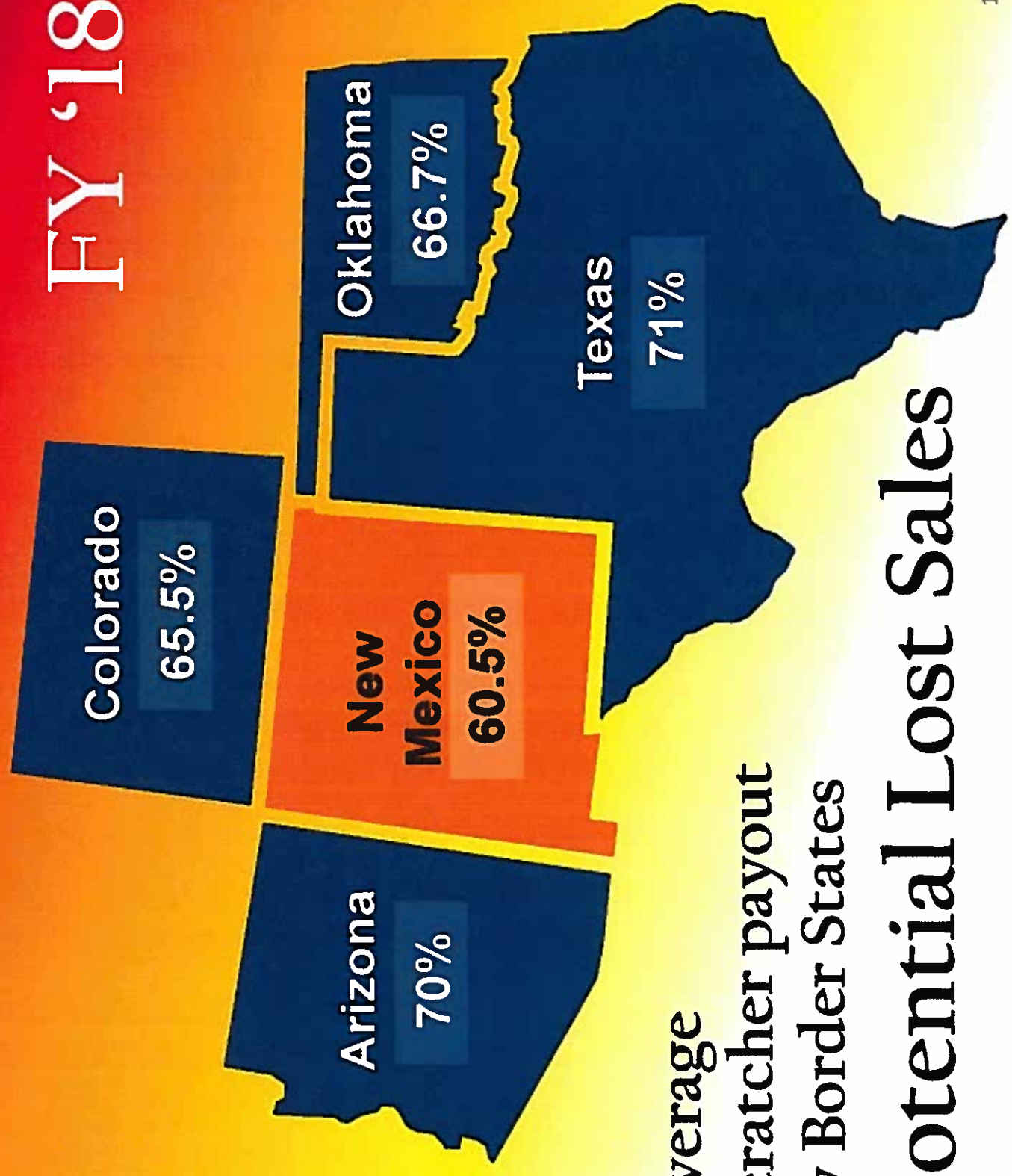
January 6, 2016

\$500 Million Jackpot

August 19, 2017

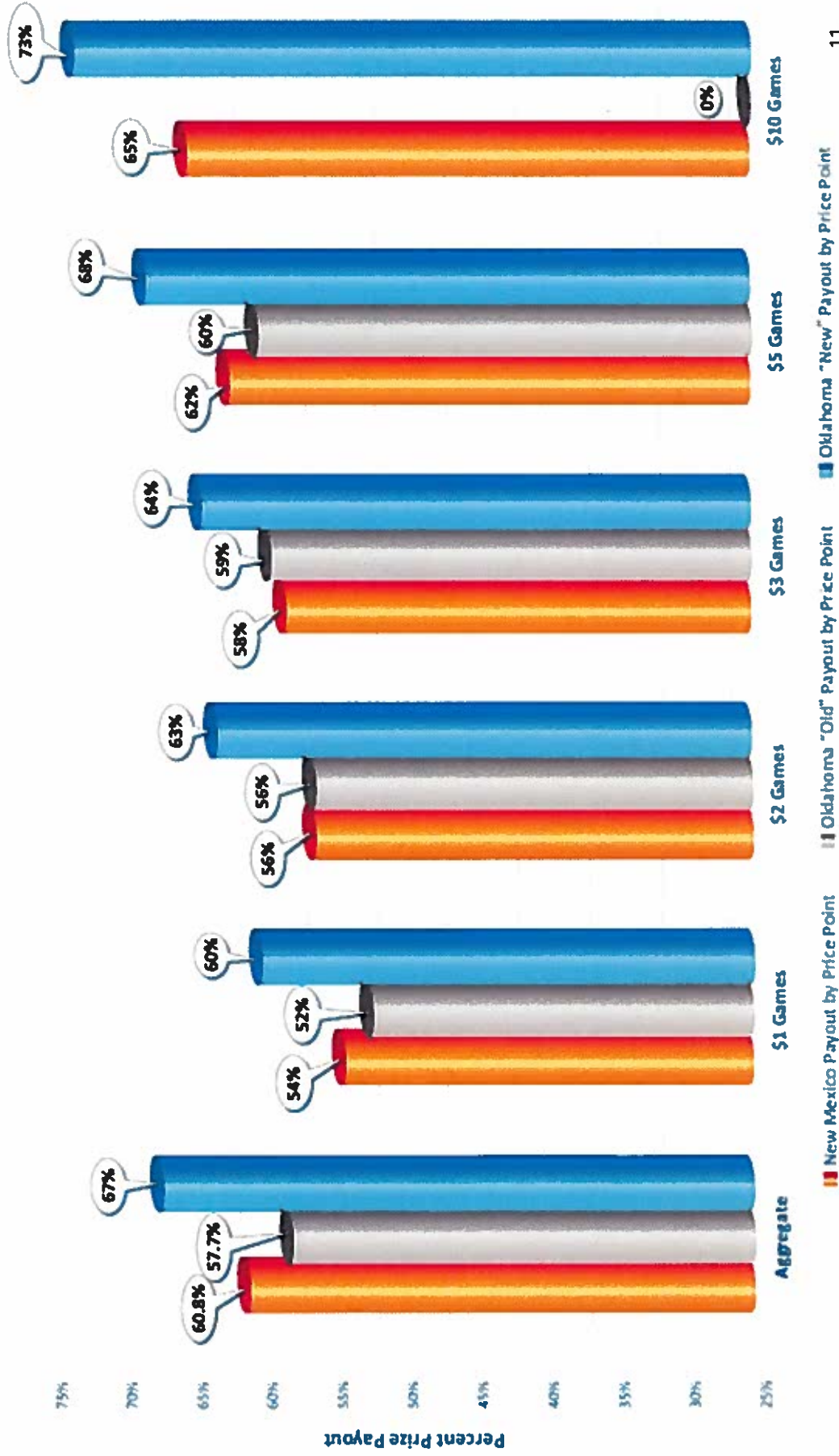
\$535 Million Jackpot

FY '18

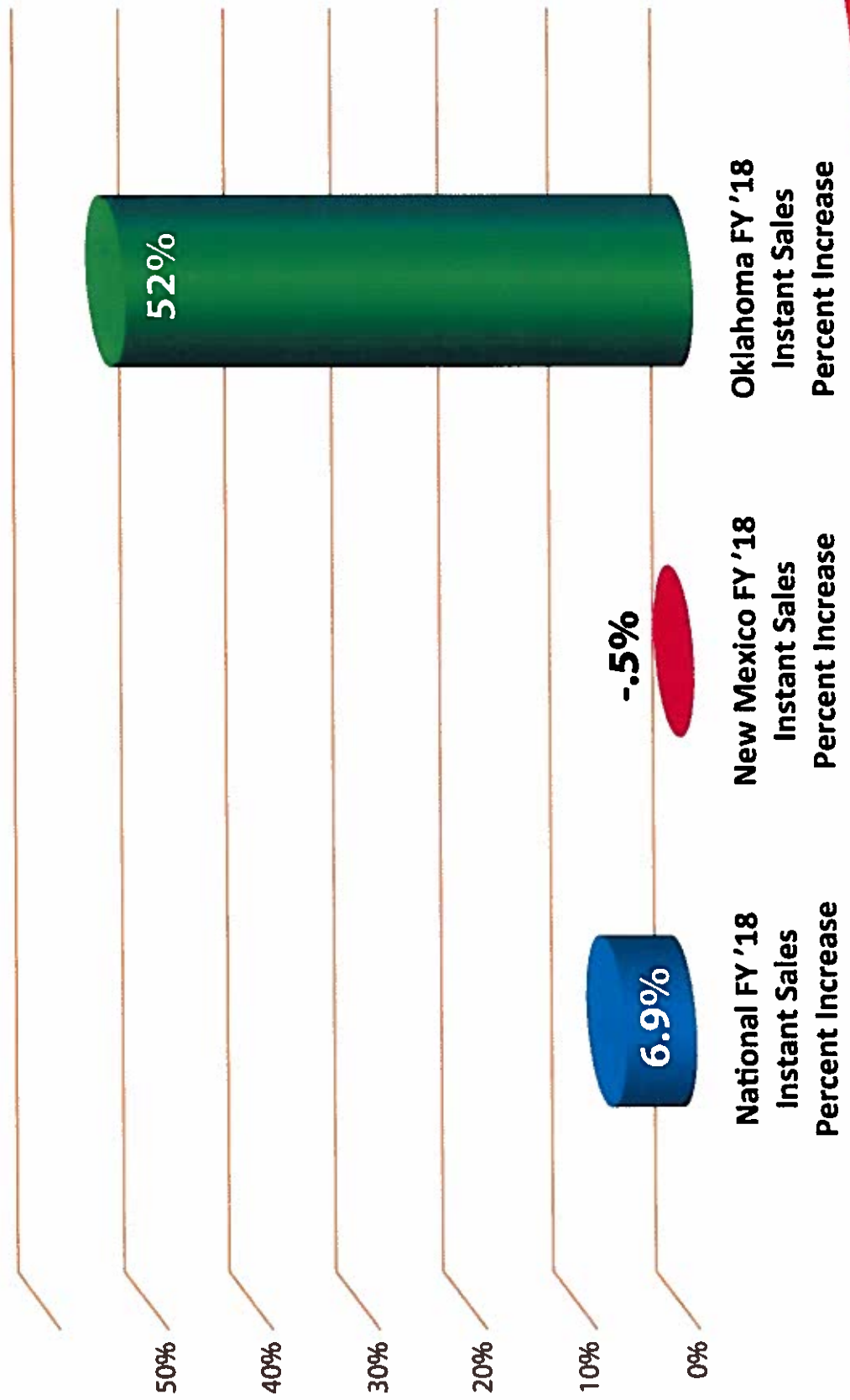


Average
Scratcher payout
by Border States
Potential Lost Sales

New Mexico Payout Compared to Oklahoma Payout



FY '18 Instant National Sales Trends



Sales increase to date

LOST SCRATCHER SALES/PROFITS AS COMPARED TO NATIONAL INDUSTRY AVERAGES

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	% Of Growth
New Mexico	91.4	86.6	80.6	78.2	75.8	68.7	69.9	69.8	80.0	83.1	72.3	
(NM Growth)	2.0%	-6.0%	-7.0%	-2.7%	-7%	-10%	2%	0.0	12.7%	3.8%	-11%	-1.7
National % Growth Rate	4.7%	2.8%	-0.5%	1.1%	4.7%	9.9%	5.2%	4.4%	7.5%	7.5%	2.8%*	56%
Projected FY Sales Using National Growth Rate	\$ 93.9	\$ 93.4	\$ 94.5	\$ 98.9	\$ 108.7	\$ 114.4	\$ 119.4	\$ 128.3	\$ 129			
Projected Lost Sales/Profits												MILLIONS
Total Sales	\$ (7.33)	\$ (12.84)	\$ (18.70)	\$ (23.11)	\$ (39.94)	\$ (44.48)	\$ (49.58)	\$ (48.35)	\$ (54.82)			\$ (299)
25% Return	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
Lost Profits	-1.8	-3.2	-4.7	-5.8	-10.0	-11.1	-12.4	-12.1	-13.7			74.8
National Industry Annual Growth Rate by % Since 2006					5.11%							
Annual NM Growth Rate by % Since 2006					-1%	-3.8571 (without FY15/16)						

U.S. Lotteries' Gaming System Contracts

FY17

	Total Contract Period (Years)	Total Contract Period (Years)
Arizona	10	Montana 10
Arkansas	10*	Nebraska 10*
California	16	N. Hampshire 10
Colorado	12	New Jersey 18
Connecticut	10	New Mexico 8
Delaware	15	New York 11*
D.C.	9	N. Carolina 15*
Florida	12	N. Dakota 10
Georgia	15	Ohio 16*
Idaho	20	Oklahoma 10
Illinois	10	Oregon 22*
Indiana	15	Pennsylvania 10*
Iowa	10*	Rhode Island 20
Kansas	10*	S. Carolina 10
Kentucky	15*	S. Dakota 10*
Louisiana	12*	Tennessee 14
Maine		Texas 16*
Maryland	12*	Vermont 10
Massachusetts	n/a	Virginia 10
Michigan	12	Washington 20*
Minnesota	10	West Virginia 8
Missouri	10	Wisconsin 10
		Wyoming 20

20 jurisdictions have contract periods of 11 to 20 years
 17 have a contract period of 10 years
 2 have a 9 year contract period
 2 have an 8 year contract period
 *15 States have no maximum contract limitations

La Fleur's 2016 World Lottery Almanac and
 NASPL Survey

12 YEARS OF VENDOR FEES

<u>Fiscal Year</u>	<u>Net Ticket Sales</u>	<u>On-line Vendor Fees</u>	<u>Percentage Paid</u>
2017	126,041,264	3,903,541	3.10%
2016	154,344,768	3,853,157	2.50%
2015	137,016,723	2,193,183	1.60%
2014	136,002,604	2,177,205	1.60%
2013	141,758,522	2,269,623	1.60%
2012	133,787,352	2,139,754	1.60%
2011	135,541,035	2,170,366	1.60%
2010	143,586,422	2,290,586	1.60%
2009	142,276,029	4,009,103	2.82%
2008	147,105,677	6,999,633	4.76%
2007	148,034,463	6,597,580	4.46%
2006	149,995,220	7,414,912	4.94%

POSSIBLE COST SAVINGS WITH 10 YEAR CONTRACT

FY 17 Gross Sales	\$ 126,041,264	\$ 126,041,264	\$ 126,041,264	\$ 126,041,264	\$ 126,041,264	\$ 126,041,264
	2.9988%*	2.8988%	2.7988%	2.6988%	2.5988%	
FY 17 Vendor Fee	\$ 3,779,725	\$ 3,653,684	\$ 3,527,643	\$ 3,401,602	\$ 3,275,560	
Remaining Contract Term with two additional years		\$ 126,041	\$ 252,082	\$ 378,123	\$ 504,165	
Possible Cost Savings		\$ 1,008,330	\$ 2,016,660	\$ 3,024,990	\$ 4,033,320	

*Current Vendor Fee

Convenience ("C") Stores and Lottery Purchases



Americans have made more payments by credit/debit card than they did with cash or check every year since 2003

- 72% of customers pay for fuel at the pump with plastic
- 59% never go in the store
- 82% of all lottery sales occur at "C" stores.

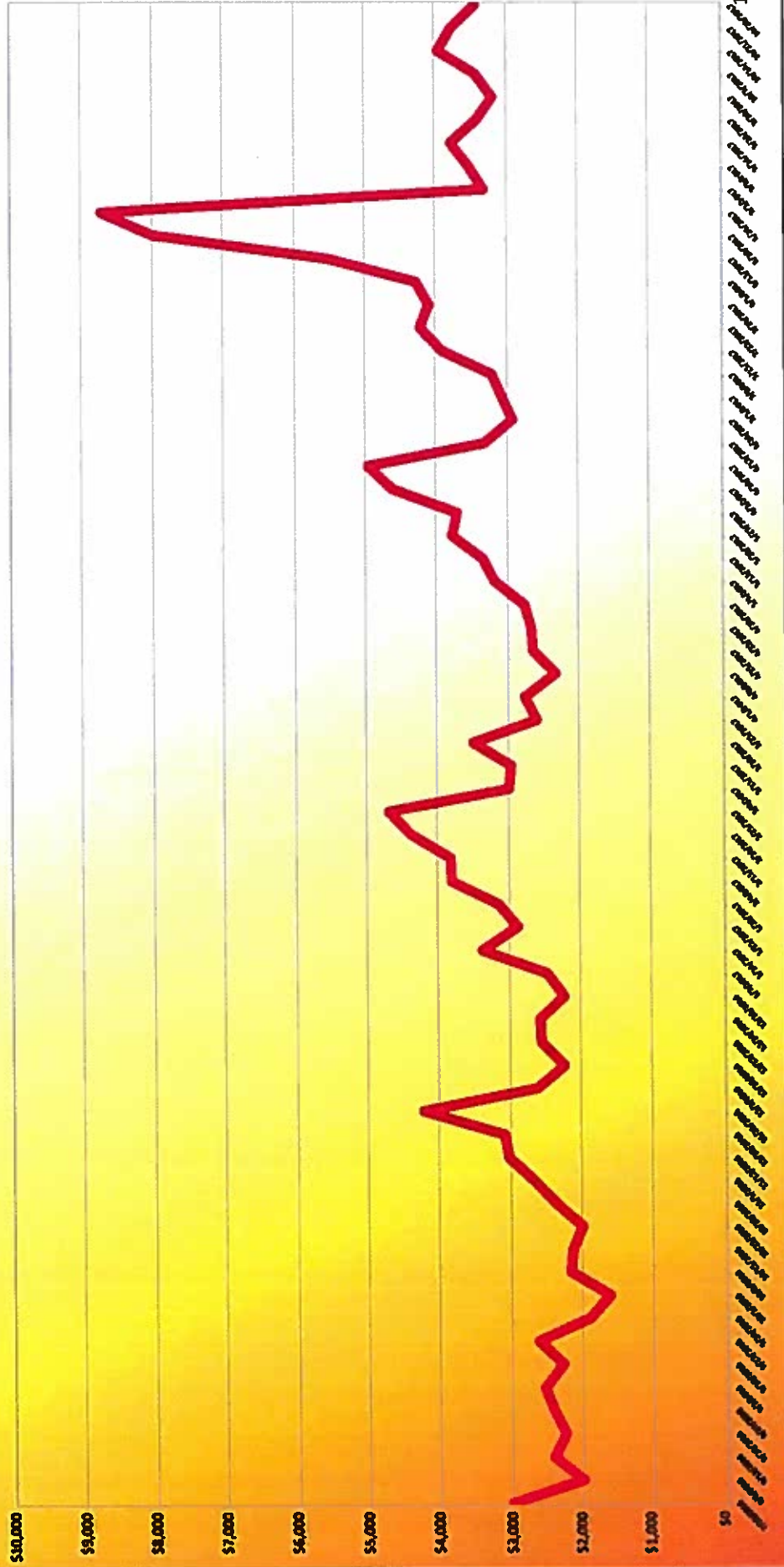
PLAY AT THE PUMP



Sales Per Week

(As of 10-28-17)

- 22 retailers in the program
 - ◊ 12 Murphy locations statewide
 - ◊ 10 independent or small chain retailers in ABQ and surrounding area
 - ◊ 194 pumps with 388 screens
- Average weekly sales \$3,288
- Average weekly transactions 398
- Pending: 61 locations, 420 pumps & 840 more screens



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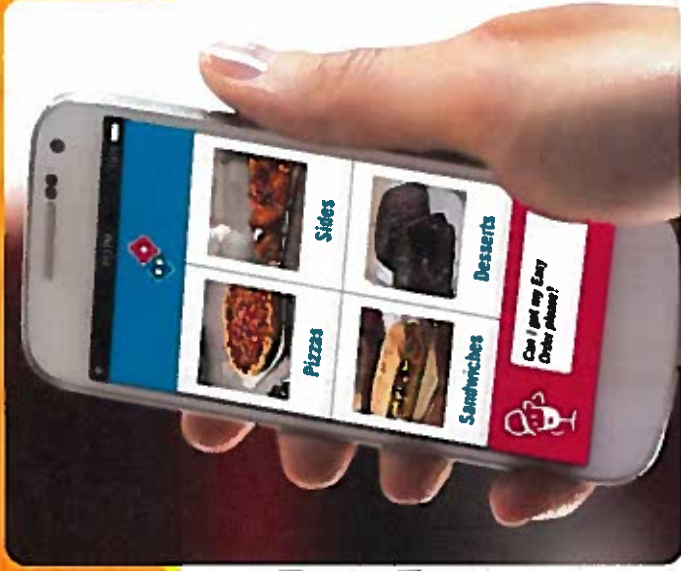
THE FUTURE



Apps



Purchasing



Sharing

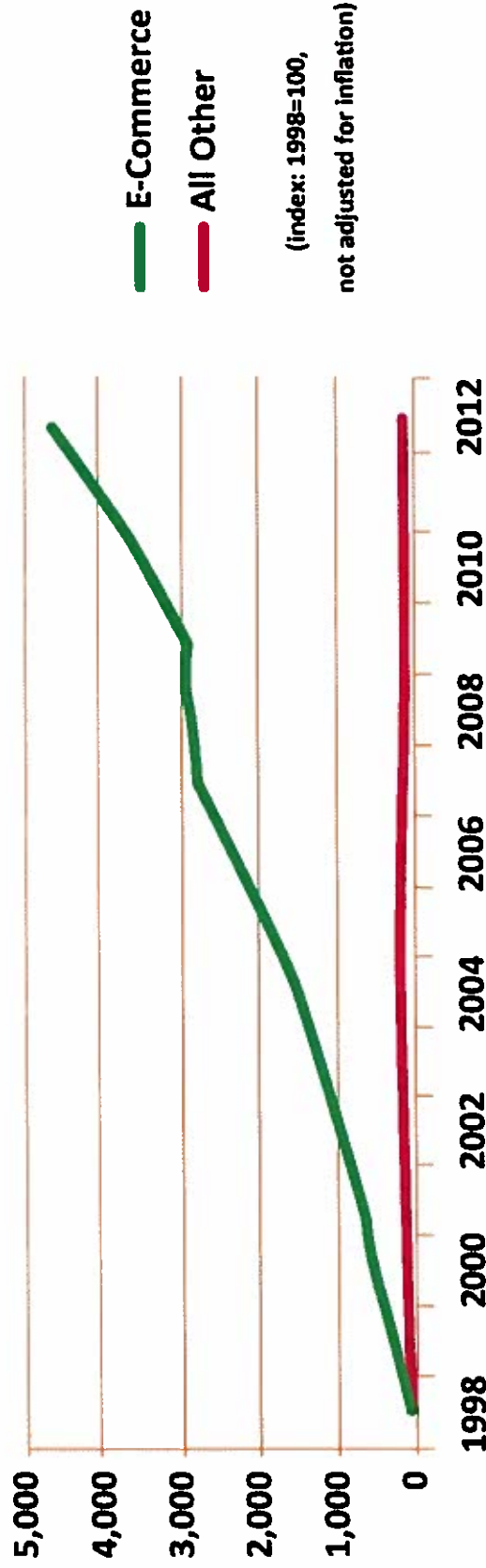


The Smartphones Victims



ALL GROWTH IN RETAIL IS DIGITAL

National retail trade e-commerce sales rose 4,452%
while all other retail sales rose 60%



Millennials or Generation Y

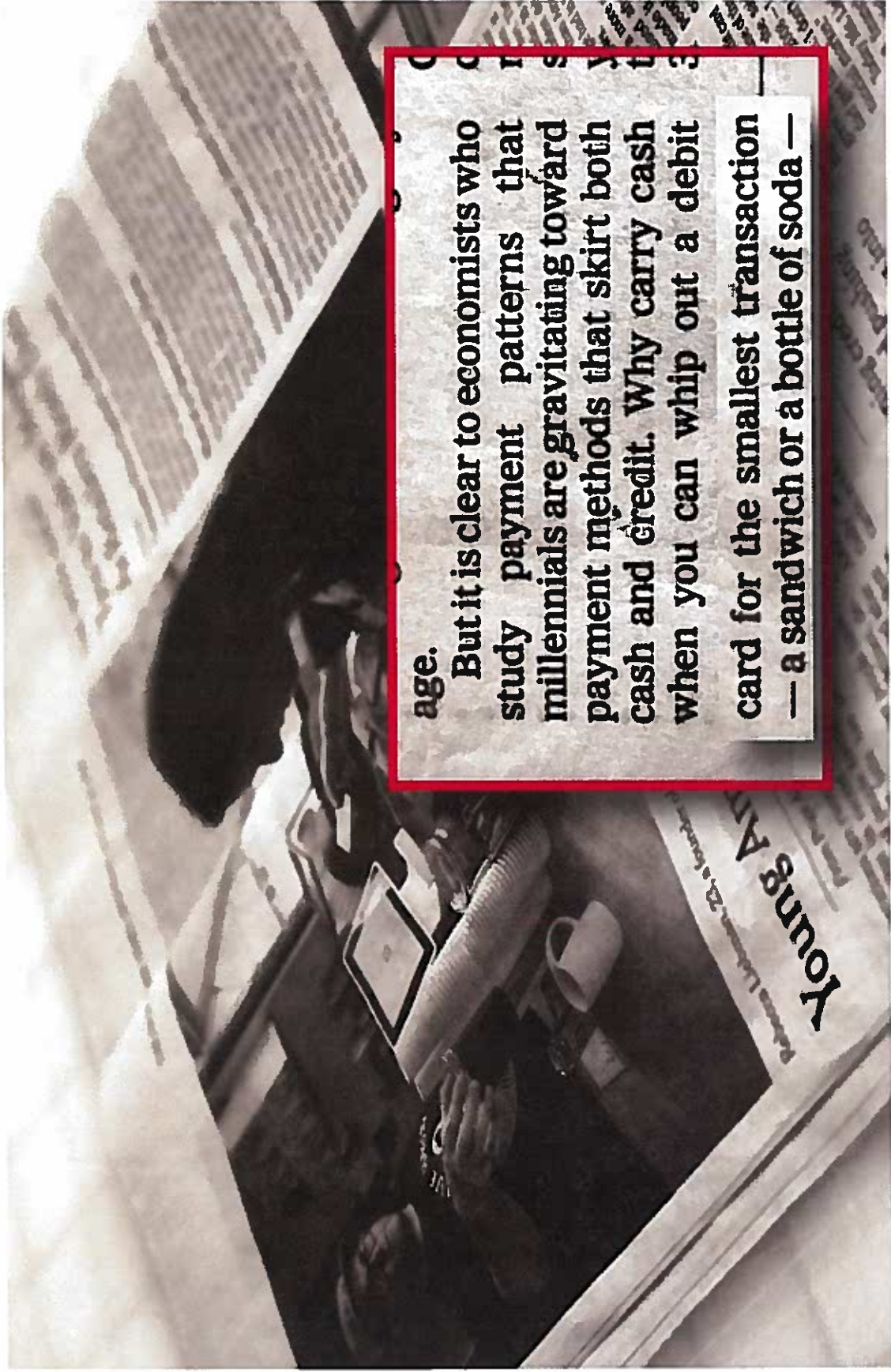
Born between 1982 and 1999: 18 to 34 years of age (75.4 million)

Baby boomers born between 1946 and 1964: 52 to 70 years of age (74.9 million)

- The largest, most diverse generation in the U.S. population.
- Have been **shaped by technology**.
- Value community and family.
- Are heavily influenced by their peers.
- Shop differently and more frequently.
- Seek **value and rewards**, but will pay extra to support a charity.
- Convenience of shopping online is very important.
- **They do not shop with cash.**

The New York Times

MONDAY, AUGUST 15, 2016



age.

But it is clear to economists who study payment patterns that millennials are gravitating toward payment methods that skirt both cash and credit. Why carry cash when you can whip out a debit card for the smallest transaction — a sandwich or a bottle of soda —

U.S. Lottery History 101

Numb. 1768.

191

 THIS TICKET [No. 191] entitles the Possessor to whatever PRIZE may happen to be drawn against it's Number in the *Mountain Road Lottery*.

Washington

The "Mountain Road" Lottery of 1768

CLASS the THIRD.

HIS TICKET entitles the Bearer to receive such Prizz as may be drawn against its Number, according to a Resolution of CONGRESS, passed at Philadelphia, November 18, 1775.

Hamilton

Continental Congress Lottery - 1776

No. 7042

Howard College Lottery.

Fifth Class.

THIS TICKET will entitle the Bearer to such Prize as may be drawn against its number, agreeably to an Act of Congress, passed the 17th day of March, 1806.

Hamilton



Courtesy of Scientific Games
 Historic Lottery Memorabilia Collection

RETHINK EVERYTHING

Insanity: doing the same thing over
and over again and expecting
different results.

— *Albert Einstein* —

AZ QUOTES

